

INFORMATION REPORT

CD NO.

COUNTRY China

DATE DISTR 4 AUG 50

SUBJECT Merchant Dissatisfaction with Communist
Regime, Kwangtung

NO. OF PAGES 2

25X1A

NO. OF ENCLS.
(LISTED BELOW)

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SUPPLEMENT TO
REPORT NO.

25X1X

1. Although there is economic stabilization in Kwangtung, the merchants do not like it. They prefer inflation rather than the present deflation policy, which, coupled with government supervision, prevents business from flourishing. Moreover, they have become accustomed to business under inflationary conditions and feel that there are far too many firms if retrenchment and austerity came about. Thousands of once prosperous merchants are now unemployed and have found it impossible to find new business. Their only alternative is to seek state employment, go to farms, or emigrate. Dissatisfaction is rampant among businessmen who would rather see the return of the Nationalists than lose their substance under the Chinese Communists.
2. Prices have fallen considerably, but wages have decreased in the same ratio, since they are based on parity deposit units and not on Hong Kong dollars. At the beginning of February, parity deposit units equalled JMP 8,214 and HK\$ TT 4,300. At the beginning of May, the figure on the former had dropped to JMP 6,500 and had on the latter advanced to HK\$ TT 6,000. Thus, parity deposit holders lost about 20 percent in three months, while Hong Kong dollar holders gained almost 40 percent.
3. The black market exchange is half dead. Since the beginning of 1950, there are only sellers and no buyers of exchange. Holders are so hardpressed to pay up taxes and loans that they are liquidating Hong Kong dollar hoards.
4. The Communist taxation policy, called "expropriation", is opposed by the merchants. Under the Nationalists practically no taxes were paid, although bribes were common, and merchants are unwilling to pay a regular fixed tax. They complain that they would not object so much if only profits were large, but as it is, profits are small, and turnover dwindles.
5. Income tax returns for the Canton area during the second half of 1949 were the equivalent of HK\$ 12,000,000; and for the first half of 1950, the equivalent of HK\$ 16,000,000. Other taxes this year include a commodity tax, and a five percent registration fee on the capital of all commercial enterprises.
6. In regard to loans, merchants in Canton during December 1949 had to pay an undisclosed amount, which was repaid in February with an exchange loss of

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Next Review Date: 2008

Document No. **5**
 No. **1**
 Date **23-6-78**
 Author: **30**
 RDP-82-00457R005400550005-1

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40 percent, although in terms of commodities merchants did not lose. In March of this year new loan subscriptions were demanded and, after considerable argument, were scaled down in the total amount.

7. On the question of future prosperity in Hong Kong, the Cantonese merchants feel that all foreign trade will soon pass under Communist Party control and private merchants will be forced out of business. Profits of private traders will be first cut, then finished off. Hong Kong will thus suffer, for private traders will no longer come there. Only if and when the CCP desires to buy or sell will the colony benefit.

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